

June 13, 2016

BSE Code: 532281 NSE Code: HCLTECH Reuters Code: HCLT.NS Bloomberg Code: HCLT:IN

HCL Technologies is engaged in providing a range of software, business process outsourcing and IT infrastructure services. The company has wide geographical presence across 32 countries. It has a strong workforce of more than 104,000 employees.

Key Developments

Uptick in deal wins:

HCL Tech is witnessing traction in large deals, which is clearly visible from its 25 transformational deal wins in 9MFY16 with TCV of more than USD 4 bn. The deal signing has remained healthy driven by Next-gen ITO, Engineering Services Outsourcing, Digital, etc.

Acquisition of Geometric:

Engineering and R&D Services (ER&D) services remains the key focus area of HCL Tech (contributing 19% to total revenue). The revenue contribution from this business exceeded USD 1bn milestone.

In a bid to further strengthen its presence in the ER&D space, the company has recently announced the acquisition of Geometric Ltd (India's leading services provider of PLM consulting, mechanical engineering and manufacturing engineering) in all stock deal. Geometric garnered revenues of Rs. 673.5 Crores in 9MFY16 and Rs 813.9 Crores in FY15. The deal brings in various synergy benefits and provides HCL Tech access to Geometric's 60 global clients in US and Europe.

Traditional verticals performance:

HCL Tech's traditional verticals – Manufacturing and BFSI (accounts for more than 50% of overall revenue) has grown at a modest pace in FY16 (LTM basis) (constant currency growth of ~9% and ~7% respectively). As regards manufacturing (largest revenue contributor ~32%), HCL Tech has prowess in automotive, aerospace, hi-tech and semi-conductors segment. BFSI on the other hand is the second largest revenue contributor (26%). The company continues to witness deal wins in the BFSI space on the back of growing vendor consolidation and adoption of digital technologies.

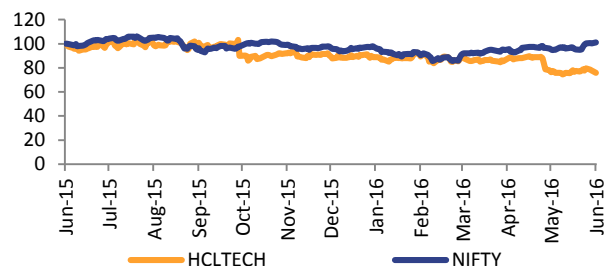
Market Data

| | |
|--------------------------|------------|
| CMP (Rs.) | 754 |
| Face Value | 2.0 |
| 52 week H/L (Rs.) | 1,006/706 |
| Adj. all time High (Rs.) | 1,006 |
| Decline from 52WH (%) | 25.1 |
| Rise from 52WL (%) | 6.7 |
| Beta | 0.7 |
| Mkt. Cap (Rs.Cr) | 106,295 |
| Enterprise Value(Rs. Cr) | 92,682 |

Fiscal Year Ended

| | FY14 | FY15 | FY16 |
|------------------------------|--------|--------|--------|
| Total revenue (Rs.cr) | 32,144 | 36,701 | 30,781 |
| Net Profit (Rs.cr) | 6,287 | 7,317 | 5,643 |
| Share Capital (Rs.Cr) | 140 | 281 | 282 |
| EPS (Rs.) | 89.8 | 52.0 | 40.0 |
| P/E (x) | 8.1 | 13.9 | 18.3 |
| P/BV (x) | 2.6 | 4.2 | 3.8 |
| ROE (%) | 38.5 | 33.4 | 21.9 |

One year Price Chart



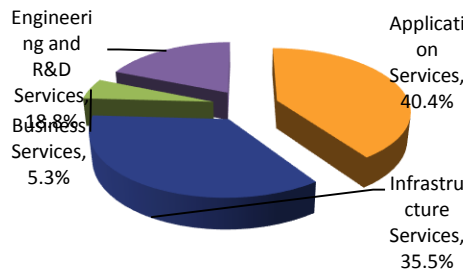
| Shareholding | Mar16 | Dec15 | Diff. |
|----------------------|-------|-------|-------|
| Promoters (%) | 60.4 | 60.4 | - |
| Public (%) | 39.6 | 39.6 | - |
| Others (%) | - | - | - |

Incorporated in 1991, HCL Technologies is engaged in providing a range of software, business process outsourcing and IT infrastructure services.

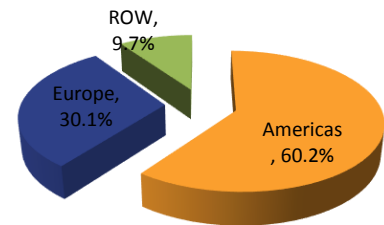
HCL Technologies Ltd: Business overview

Incorporated in 1991, HCL Technologies is engaged in providing a range of software, business process outsourcing and IT infrastructure services. The company provides technology service across various verticals including financial services, manufacturing (automotive, aerospace, hi-tech and semiconductors), telecom, retail and consumer packaged goods services. Geographically, the company has diverse presence across 32 countries including Americas, Europe, Asia Pacific, Middle East and Africa. Its global strategic alliances have some reputed names that includes Microsoft, Cisco, SAP, HP, etc. It has a strong workforce of more than 104,000 employees.

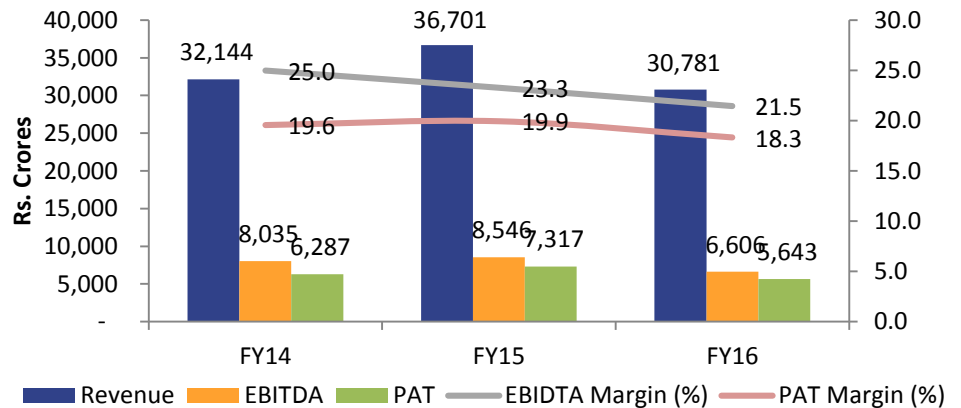
HCL tech's service mix



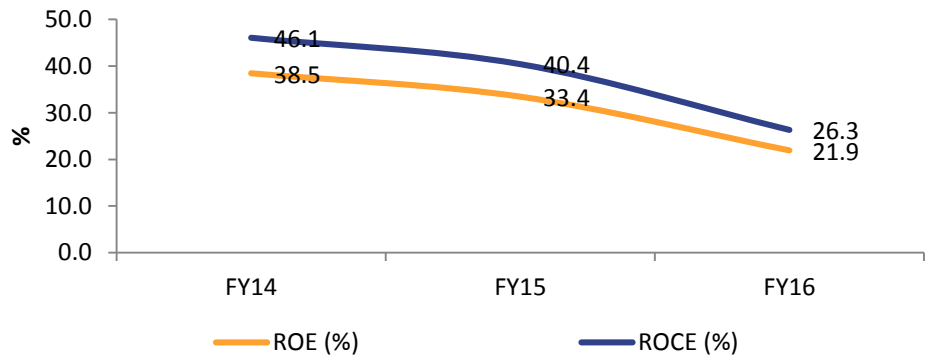
Geographic mix



Financial snapshot of HCL Ltd.



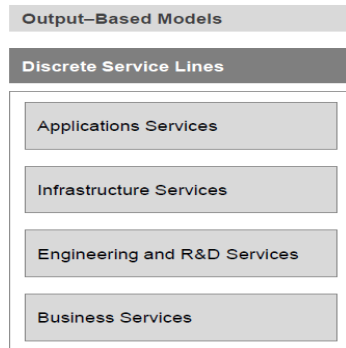
Return Ratios Trend



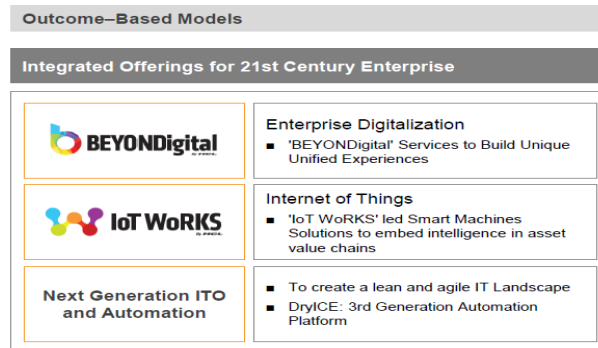
Source: Company, In-house research

HCL's differentiated play for the 21st century

2010 – 2015



2016 – 2020



Source: Company, In-house research

IMS – the backbone

Infrastructure management services contributes ~35% to overall revenue and has grown at a CAGR of more than 30% over FY10-16. The company continues to witness healthy deal wins in the infrastructure space. In order to further strengthen its position in the IMS business, the company has recently launched a third generation automation framework – DryICE (combines artificial intelligence, machine learning, Automation, Orchestration and Knowledge Management).

Further, the company has launched a software-defined infrastructure solution center. With increasing adoption of hybrid cloud, the company continues to work very closely with a number of partners to retain business.

Traction in ER&D space

HCL Tech has gradually enhanced its focus on Engineering and R&D Services (ER&D) and has created a dominance in this space (~19% of HCL Tech's revenue). The revenue contribution from this business exceeded USD 1bn milestone. Further, the company continues to witness good pipeline in Engineering Services driven by both internet of things as well as digital engineering. The increasing demand from first time outsourcers is also driving growth. The company is further strengthening its presence in this space by remaining a differentiator by building intellectual properties. The company's rich expertise is clearly reflected from its current involvement with more than 50% of the top 100 global R&D companies. In order to strengthen its presence in IoT space, HCL Tech has made huge investments to provide end-to-end offerings to its clients. The company is also scaling up its presence in Engineering Services both in China and Mexico as companies prefer engineering services outsourcing to be closer to the manufacturing base.

Geometrics' acquisition by HCL

In a bid to further strengthen its presence in the ER&D space, the company has recently announced the acquisition of Geometric Ltd (India's leading services provider of PLM consulting, mechanical engineering and manufacturing engineering) in all stock deal. The deal brings in various synergistic benefits and provides HCL Tech access to Geometric's 60 global clients in US and Europe primarily in the automotive and industrial engineering segments.

Infrastructure management services contributes ~35% to overall revenue and has grown at a CAGR of more than 30% over FY10-16.

The company continues to witness good pipeline in Engineering Services driven by both internet of things as well as digital engineering.

Geometric's acquisition will further enhance its capabilities primarily in the PLM consulting as well as mechanical and manufacturing engineering.

HCLT would issue 10 equity shares of Rs. 2 each to Geometric shareholders for every 43 equity shares of Geometric held by them. Geometric garnered revenues of Rs. 673.5 Crores in 9MFY16 and Rs 813.9 Crores in FY15. This acquisition excludes Geometrics' 58% stake in 3DPLM Software Solutions, a JV with Dassault Systems.

Traditional verticals performance

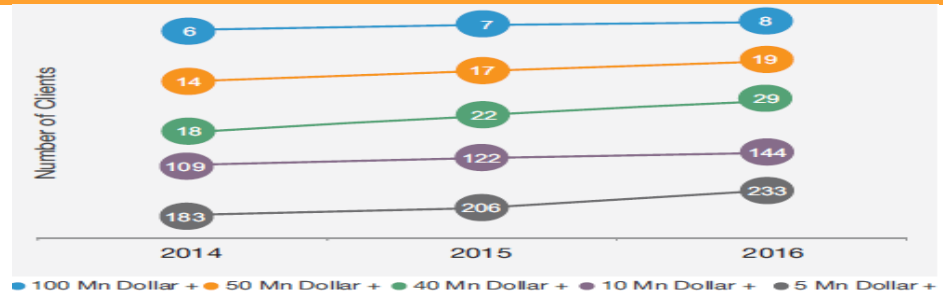
HCL Tech's traditional verticals – Manufacturing and BFSI (accounts for more than 50% of overall revenue) has grown at a modest pace in FY16 (LTM basis) (constant currency growth of ~9% and ~7% respectively). As regards manufacturing (largest revenue contributor ~32%), HCL Tech has prowess in automotive, aerospace, hi-tech and semi-conductors segment. BFSI on the other hand is the second largest revenue contributor (26%). The company continues to witness deal wins in the BFSI space on the back of growing vendor consolidation and adoption of digital technologies.

Uptick in deal wins

HCL Tech is witnessing traction in large deal, which is clearly visible as it has bagged 25 transformational deals with TCV of more than USD 4 bn in 9MFY16 as against 58 transformational engagements signed in FY15 with USD 5bn+ TCV. The deal signing has remained healthy driven by Next-gen ITO, Engineering Services Outsourcing, Digital, etc. The client addition also remains robust with the company adding 1 new client in USD 100 mn+, 2 new clients in USD 50 mn+ bracket, 7 new clients in USD 40 mn+ bracket and 22 new clients in USD 10 mn+ bracket in 9MFY16.

The deal signing has remained healthy as it has bagged 25 transformational deals with TCV of more than USD 4 bn in 9MFY16.

Client mix



Source: Company, In-house research

Volvo deal

HCL Tech has acquired Volvo's external IT business and also signed a significant five-year IT outsourcing deal with the Volvo Group (one of the world's leading manufacturers of commercial vehicles). With the acquisition of Volvo's external IT business, HCL Tech will add 40 new customers from Nordics and France, further enhancing its market leadership position in these regions. As part of the IT outsourcing deal with Volvo, HCL Tech will undertake Volvo's infrastructure and operation services.

Balance Sheet (Consolidated)

| (Rs.Cr) | FY14 | FY15 | FY16 |
|---------------------------------------|---------------|---------------|---------------|
| Share Capital | 140 | 281 | 282 |
| Reserve and surplus | 19,402 | 23,943 | 27,012 |
| Net Worth | 19,542 | 24,224 | 27,294 |
| Minority Interest | 65 | 82 | 312 |
| Total Debt | 1,018 | 648 | 952 |
| Other non-current liabilities | 930 | 825 | 841 |
| Total Equity & Liabilities | 21,555 | 25,779 | 25,398 |
| Net Fixed Assets | 2,750 | 3,482 | 5,185 |
| Capital WIP | 531 | 552 | 500 |
| Goodwill | 4,694 | 4,793 | 4,877 |
| Investments | 662 | 869 | 855 |
| Net current assets | 10,299 | 12,819 | 14,380 |
| Deferred tax assets (net) | 815 | 790 | 826 |
| Other non-current assets | 1,805 | 2,475 | 2,776 |
| Total Assets | 21,555 | 25,779 | 25,398 |

Cash Flow (Consolidated)

| Y/E (Rs. Cr) | FY14 | FY15 | FY16 |
|--|--------------|--------------|--------------|
| Net profit/loss before tax& extraordinary items | 7,917 | 9,117 | 7,025 |
| Net cashflow from operating activities | 6,457 | 5,539 | 2,914 |
| Net cash used in investing activities | (4,842) | (2,088) | (1,200) |
| Net cash used from financing activities | (1,308) | (3,140) | (2,646) |
| Net inc/dec in cash and cash equivalents | 307 | 311 | (932) |

Financial performance snapshot

Since FY16 is a 9 month period due to change in accounting year to March from June, so the numbers are not strictly comparable. Net sales of the company stood at Rs. 30,781 Crores in FY16. The operating expenses of the company was Rs. 24,175 Crores. The company's EBITDA stood at Rs. 6,606 Crores in FY16 with EBITDA margin of 21.5% in FY16. Net profit was Rs. 5,643 Crores in FY16 and the NPM stood at 18.3%.

Profit & Loss Account (Consolidated)

| (Rs.Cr) | FY14 | FY15 | FY16 |
|--------------------------|---------------|---------------|---------------|
| Net revenue | 32,144 | 36,701 | 30,781 |
| Expenses | 24,108 | 28,155 | 24,175 |
| EBITDA | 8,035 | 8,546 | 6,606 |
| Depreciation | 681 | 404 | 393 |
| EBIT | 7,354 | 8,142 | 6,213 |
| Interest cost | 115 | 91 | 74 |
| Other Income | 677 | 1,066 | 830 |
| Profit Before Tax | 7,917 | 9,117 | 6,969 |
| Tax | 1,650 | 1,815 | 1,364 |
| Profit After Tax | 6,267 | 7,302 | 5,605 |
| Minority Interest | - | 25 | 18 |
| P/L from Associates | 20 | 40 | 56 |
| Adjusted PAT | 6,287 | 7,317 | 5,643 |
| E/o expense / (income) | - | - | - |
| Reported Profit | 6,287 | 7,317 | 5,643 |

Key Ratios (Consolidated)

| | FY14 | FY15 | FY16 |
|-------------------|-------|-------|-------|
| EBITDA Margin (%) | 25.0 | 23.3 | 21.5 |
| EBIT Margin (%) | 22.9 | 22.2 | 20.2 |
| NPM (%) | 19.6 | 19.9 | 18.3 |
| ROCE (%) | 46.1 | 40.4 | 26.3 |
| ROE (%) | 38.5 | 33.4 | 21.9 |
| EPS (Rs.) | 89.8 | 52.0 | 40.0 |
| P/E (x) | 8.1 | 13.9 | 18.3 |
| BVPS(Rs.) | 279.2 | 172.3 | 193.5 |
| P/BVPS (x) | 2.6 | 4.2 | 3.8 |
| EV/EBITDA (x) | 5.3 | 10.8 | 14.4 |



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